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**China, Peoples Republic of**

**Solid Wood Products**

**Turnkey Housing Project Opens Doors for U.S.**

**Products**

**2003**

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**Report Highlights:**

**The city of Shanghai is pursuing plans to change sales of new homes from concrete shells to a fully finished basis by the year 2007. If successful, this project will change the way that interior wood products are marketed, creating an environment much friendlier to imported wood products.**

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Includes PSD changes: No  
Includes Trade Matrix: No  
Unscheduled Report  
Shanghai ATO [CH2], CH

## **A Revolution In the Works**

The municipal government of Shanghai is undertaking a pilot project to offer fully finished housing to home buyers. If successful, this could become the model for the construction of housing in cities across China, and would represent a major change in the housing construction industry. Fully finished housing will, according to municipal officials, include flooring, molding, doors and door frames, kitchen cabinetry and other fixtures, lighting, and bathroom fixtures.

## **The Ancien Regime**

At present, housing in China is sold as an empty concrete shell. Homeowners must then hire decorating companies to finish the apartment, providing plumbing fixtures, flooring, interior doors, cabinetry, etc. Finishing services are provided by a legion of small, undercapitalized, and largely unregulated companies. The quality of work is often inferior, workmen poorly trained, and, unless closely watched, some finishing companies will substitute low quality materials for the ones specified. Because the companies are extremely small and the industry poorly regulated, they are rarely held to account for substandard work. For many Chinese home buyers, decorating a new apartment is a massively time-consuming, stressful and frustrating ordeal. The home decorating industry is one of the largest single sources of consumer complaints in China. Municipal officials are also concerned about safety issues arising from the activities of decorating companies, who are not linked to builders and often modify apartments in ways that may compromise the structural integrity of the building.

According to Chinese officials, sales of finished housing will address many of these problems. The primary objective of the policy is to reduce the number and increase the scale of companies involved in the decorating business to the point that they can finish entire housing developments. Among other benefits, a reduction in the number of operators will make the industry easier to regulate. The increase in scale and move to sales of finished housing will also require decorators to work more closely with builders. Officials also expect that the increase in scale will improve the efficiency of materials use in decorating, allowing improvements in the quality of housing at no additional expense to consumers.

## **Friends of the Revolution**

Consolidation of the interior decorating industry could be a boon for U.S. wood product exporters. At present, this is a difficult market for imports, as the extremely small scale and low profit margins cause them to favor the cheapest materials available. At the same time, these companies lack bulk buying power, and often buy from secondary distributors. Larger companies are not only expected to place a stronger emphasis on quality, but will have the ability to realize savings from bulk purchases. This will make them better potential customers for imported wood products, and at the same time make it easier for U.S. exporters to establish direct contact with the end users of their products.

## **How Fares the Revolution?**

The turnkey housing project is still in its infancy. The first year, 2001, provided an estimated 3,000

units of finished housing, which went up to 30,000 units in 2002. For the current year, this number is scheduled to reach 100,000 units, and by 2005, the Shanghai municipal authorities expect that all apartments will be offered for sale on a finished basis. Final estimates on the number of finished apartments built in 2002 are not yet available, but local officials are confident that the target was met. They note that these targets are entirely voluntary—little prodding has been required on the part of the government, as builders have found that finished housing sells more easily than unfinished housing. The main limit on expansion appears to be the industry's ability to build it, rather than market demand. Unfortunately, municipal officials were unable to name the construction companies involved in the initiative, claiming that there were too many to list.

That the decoration industry in Shanghai will reorganize is not in question. Municipal officials have called the initiative an effort to 'reconstruct the housing industry.' Precisely how the industry will reorganized, however, is unclear. Officials believe that a number of arrangements are likely to emerge, including fully integrated builder-decorators, builders that contract decoration out to a single decorating company (which may then subcontract), and builders that directly subcontract individual components (such as flooring or kitchen cabinets).

### **The House that Trade Built**

Trade in wood products for interior decoration is already on the rise. Unfortunately, existing statistics do not distinguish between wood imported for use in furniture (also growing rapidly) from other interior uses. Nonetheless, U.S. Customs data for wood exports to China paint an optimistic picture.

U.S. Exports of Wood Products to China (value in 1,000 dollars)					
Commodity	1998	1999	2000	2001	2002*
Hardwood Lumber	13,960	29,904	54,156	59,399	77,742
Hardwood Logs	2,622	5,440	12,376	28,865	40,818
Softwood Lumber	1,297	1,213	2,322	12,624	18,944
Softwood Logs	8,714	2,346	5,786	10,662	9,195
Hardwood Veneers	3,331	5,487	6,972	13,084	28,763
Softwood Veneers	229	1,448	1,690	897	3,723
Hardwood Flooring	528	13	0	43	1,005
Softwood Flooring	30	142	0	27	54

\* Year-to-date data through November, 2002.

### **Targets of Opportunity**

Opportunities to learn more about the market for wood products in China abound. Following is a partial list of wood-related trade shows that will be held in different cities within China over the next year.

Show	Venue	Dates
Furnitek China WoodBuild China	Shanghai	2/25 - 2/28
Building Interiors China Wood and Building China	Shanghai	4/2 - 4/5
Furniture Manufacturing and Supply China Furniture China Office Furniture China	Shanghai	9/10 - 9/13 9/10 - 9/14 9/10 - 9/14
Furniture China 2003	Wuhan	10/23 - 10/26